



U.S. SENATE COMMITTEE ON

# Finance

SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

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For Immediate Release

Wednesday, Nov. 5, 2003

## Grassley Praises House Passage of Senate's Military Tax Relief Bill

WASHINGTON – Sen. Chuck Grassley, chairman of the Committee on Finance, today praised the House's unanimous passage of the Senate's version of bipartisan legislation offering tax relief for military men and women. The House passage – after more than a year of delays – clears the legislation for the President's consideration. Grassley co-authored the legislation.

"Our nation is relying on the military in unique ways," Grassley said. "We remain engaged in restoring peace to Iraq. We face the challenge of defeating terrorism at home and abroad. Our enlisted men and women are front and center for all of these tasks. The sad fact is these folks don't get a fair shake under the federal tax code. I appreciate the House's recent willingness to pass this bill. This took too long, but with Veterans Day next week, better late than never."

Below is a summary of the provisions that were included in the final version of the bill passed by both houses of Congress.

**A. Increase in and Exclusion of Military Death Gratuity Payments.** Under current law, death gratuity benefits are \$6,000 (as increased in 1991) but are only excludable from income up to the amount payable as of September 9, 1986 (i.e., \$3,000). The bill increases the current death gratuity benefit from \$6,000 to \$12,000 and provides a full exclusion from taxable income for all death gratuity benefit payments. These provisions are estimated to cost \$122 million over 10 years.

**B. Exclusion of Gain from the Sale of a Principal Residence by Military and Foreign Service Personnel.** In 1997, Congress amended the taxation of capital gains from the sale of a principal residence. Under those rules, up to \$250,000 (\$500,000 per married couple) may be excluded on the sale of a principal residence if the individual has lived in the house for at least two of the previous five years. Although Treasury Regulations provide relief in the event a principal residence is sold for work-related reasons prior to the time at which the two-year requirement is met, no relief has been provided for military and foreign service personnel who are required to move either within the U.S. or abroad in the course of active duty. The bill permits military and foreign service personnel to make an election to suspend for a maximum of ten years the running of the two and five year periods while away on active duty assignments. Senator McCain has sponsored similar legislation. The proposal is expected to cost \$212 million over 10 years.

**C. Exclusion of Amounts Received Under Military Housing Assistance Program.** The Department of Defense makes payments to members of the Armed Services to offset diminution in housing values due to military base realignment or closure. For example, if a house near a base was worth \$180,000 prior to a base closure and \$100,000 after a base closure, DOD may provide the owner with a payment to offset most (but not all) of the \$80,000 diminution in value. Under current law, those amounts are taxable as compensation. The bill provides that such payments will be excludable from income. The proposal is expected to cost \$19 million over 10 years.

**D. Expand Combat Zone Filing Rules To Include Contingency Operations.** Under current law, military personnel stationed in a combat zone receive an extended period of time for filing federal income tax returns. This exception, however, has not been extended to military personnel involved in contingency operations such as Operation Iraqi Freedom or Enduring Freedom. The bill provides similar filing extensions to military personnel assigned to contingency operations designated by the Secretary of Defense. The proposal is estimated to cost \$13 million over 10 years.

**E. Above-The-Line-Deduction For Overnight Travel Expenses of National Guard and Reserve Members.** Reservists who travel periodically (typically one weekend per month and two weeks in the summer) for reserve duty incur significant travel expenses, some of which are not reimbursed by the military. Under current law, those “unreimbursed business expenses” may deducted as an itemized deductions on Schedule A to the extent those expenses exceed 2% of adjusted gross income. Thus, reservists who do not itemize (like 75% of all taxpayers) may not deduct any portion of those expenses, and reservists who itemize may deduct those expenses only in limited form. The bill provides an above-the-line deduction for overnight travel costs incurred more than 100 miles from the taxpayer’s home including meals, transportation and lodging up to the amount allowable as per diem allowances applicable to the locale by the DOD for all reservists and members of the National Guard. Senator DeWine sponsored similar legislation. The proposal is expected to cost less than \$851 million over 10 years.

**F. Expansion of Membership For Veterans’ Organizations.** Qualified veterans’ organizations under section 501(c)(19) of the tax code are treated as tax-exempt organizations under the Internal Revenue Code. As such, contributions to qualified veterans’ organization are deductible. To become a qualified veterans’ organization, (1) 75% of the members must be current or former active military personnel and (2) “substantially all” of the members must be either current or former active military personnel or widows/widowers of former active military personnel. The bill permits lineal descendants and ancestors of current or former active military personnel to qualify for the “substantially all” test. The proposal costs \$17 million over 10 years.

**G. Clarification of Treatment of Child Care Subsidies.** Under current law, employees generally may exclude from taxable income up to \$5,000 of employer-provided child care expenses. The military provides extensive child-care benefits to its employees. A separate provision in the Internal Revenue Code excludes from income benefits provided to members of the uniformed services. However, it is unclear whether child-care benefits were intended to be included in that provision. The bill clarifies that child-care benefits provided to military personnel would be excludable from income. The proposal is not expected to have a revenue effect.

**H. Treatment of Service Academy Appointments as Scholarships for Purposes of Section 529 and Section 530 Education Programs.** The bill permits penalty-free withdrawals from Coverdell education savings accounts and qualified tuition programs made on account of the attendance of the account holder or beneficiary at the United States Military Academy, the United States Naval Academy, the United States Air Force Academy, the United States Coast Guard Academy, or the United States Merchant Marine Academy. The amount of funds that can be withdrawn penalty-free is limited to the costs of advanced education as defined in Title 10, section 2005(e)(3) of the United States Code (as in effect on the date of the enactment of the bill) at such Academies. The proposal is expected to cost \$2 million over 10 years.

**I. Suspension of the Tax-Exempt Status of Terrorist Organizations.** The bill suspends the tax-exempt status of an organization that is exempt from tax under section 501(a) for any period during which the organization is designated or identified as a terrorist organization. The bill also makes such an organization ineligible to apply for tax exemption under section 501(a). The period of suspension runs from the date the organization is first designated or identified to the date when all designations or identifications with respect to the organization have been rescinded pursuant to the law or Executive order under which the designation or identification was made. The bill directs the IRS to update the listings of tax-exempt organizations to take account of organizations that have had their exemption suspended and publish for taxpayers the non-deductibility of contributions to such organizations during the period of suspension. The proposal has a negligible revenue effect.

**J. Assistance for Families of Space Shuttle Columbia Heroes.** The bill expands the class of those eligible for income tax relief to include astronauts who die in the line of duty, effective January 1, 2003 and thereby affords astronauts killed in the line of duty income tax relief, death benefit relief, and estate tax relief. The proposal is estimated to cost less than \$500,000 over ten years.

**K. Offset: Custom User Fees.** The total cost of the bill (approximately \$1.236 billion) is paid for by extending custom user fees through March 1, 2005.